

SGGF VII

Saskatchewan Government Growth Fund VII Ltd.

Creating economic wealth and diversification
through investment of immigrant investor capital in Saskatchewan

2002 ANNUAL REPORT



**SASKATCHEWAN GOVERNMENT
GROWTH FUND**

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FUND PROFILE

Saskatchewan Government Growth Fund VII Ltd. ("SGGF VII" or the "Fund") is a government-administered venture capital fund pursuant to the Immigration Regulations, 1978 (Canada), as amended. It was formed to enable immigrant investors to invest in businesses operating in Saskatchewan and facilitate the investors' qualification as Canadian permanent residents under the Immigrant Investor Program.

FINANCIAL HIGHLIGHTS

- The Fund incurred a loss of \$429,000 in 2002 and has a deficit at December 31, 2002 of \$698,000.
- Since SGGF VII's inception in 1999, investments made by the Fund total \$11.3 million, of which \$8.4 million has been invested in infrastructure loans and \$2.9 million has been invested in SMEs.
- Income from investments and portfolio investments for the year was \$897,000, compared with \$816,000 in 2001.

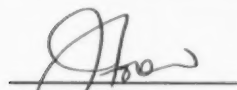
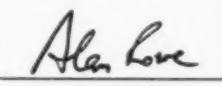
MESSAGE TO INVESTORS

The priority of Saskatchewan Government Growth Fund VII Ltd. in 2002 was the completion of investment of investors' funds in eligible businesses.

During 2002, a total of \$6.8 million was invested in six businesses. The regulations of the federal immigrant investor program require that investors' funds be invested in eligible businesses within nine months of receipt. During 2002, progress was made in reducing the number of investors for whom the Fund had not met this requirement to 23, from 35 at the end of 2001. During 2002, the Fund obtained an extension to June 30, 2003 of the date by which the investment requirement must be satisfied. The delay in satisfying the requirement is caused by a lack of acceptable investment opportunities which satisfy the requirements of the regulations and the Confidential Offering Memorandum pursuant to which the Notes are issued.

In October 2002, Gary Benson retired as President of SGGF VII. Gary had been President since the inception of the Fund. In February 2003, Keith Rissling, who became a director in May 1999, retired from the Board. On behalf of the Board, we thank Gary and Keith for their contribution to SGGF VII. Alan Rowe was appointed President in October 2002, and Harwood Davies was elected as a director in February 2003.

During 2003, the priority of SGGF VII will be to complete the investment of investors' subscriptions in eligible businesses, and to support investees in the development of their businesses. During the year, the Fund will also review the options available to subscribers who have not yet paid their subscription amounts in full, and communicate with those subscribers accordingly.


Joanne Forer
Chair
Alan M. Rowe
President

INVESTMENT PROFILES

The following are profiles of investments held by SGGF VII during 2002, including the total amount invested and a description of the companies' operations. The date of the initial investment in each company is noted in parentheses.

CrownAg International Inc. (November 2001)

\$325,905 loan

CrownAg International has developed proprietary colour sorting technology for pulse crops. The company operates a processing plant in Regina.

EMCS – Electronic Media Carrier Services Inc. (February 2002)

\$164,789 loan

EMCS is a Saskatoon-based high-speed internet service provider to small and medium sized businesses in central Saskatchewan. The company utilizes cable and wireless technologies.

Harman Poultry Farm Ltd. (September 2002)

\$175,839 loan

Harman Poultry is the largest producer of eggs in Saskatchewan. The company has operations near Regina and Prince Albert, Saskatchewan.

Nu-Fab Burton Limited Partnership (June 2001)

\$488,866 loan and partnership units

Nu-Fab Burton Limited Partnership was formed in 2002 through the merger of Burton Cabinets, in which SGGF VII previously had an investment, and Nu-Fab Building Products. Burton Cabinets is a Saskatoon-based custom cabinet and millwork manufacturer. Nu-Fab Building Products is a supplier of building products and pre-fabricated residential housing with operations in Regina and Saskatoon. SGGF VII acquired a partnership interest and advanced additional funds on the merger.

Prairie Plant Systems Inc. (May 2001)

\$503,062 loans

Prairie Plant is a Saskatoon-based company involved in the innovation and delivery of new plant biotechnologies for environmental and commercial applications.

Quartus Energy Limited (May 2001)

\$819,783 common shares

Quartus Energy is involved in the exploration, development and production of natural gas in and around Burstall, Saskatchewan.

SaskCan Pulse Trading Inc. (May 2002)*\$270,000 common shares and loan*

SaskCan is a Regina-based joint venture between SGGF VII and other investors. SaskCan operates North America's largest lentil splitting facility.

Tri-North Farms Limited Partnership (October 2001)*\$244,429 loans*

Tri-North Farms is a limited partnership established to build and operate a 1,300 sow, two-site hog multiplier facility. The company is located near Medstead, Saskatchewan.

CAJON Leasing (December 2001)*\$6,925,093 loans*

CAJON, located in Regina, leases vehicles and other assets to Saskatchewan Crown corporations and government-related entities.

R & R Leasing (July 2002)*\$1,422,274 loans*

R&R is based in Saskatoon and leases buildings, equipment and vehicles to Saskatchewan Crown corporations, other government-related entities and private enterprises.

MANAGEMENT DISCUSSION AND ANALYSIS

SGGF VII began commercial operations in 1999 with the first receipt of subscription deposits from investors. The first investment in eligible businesses was made in 2001 and accordingly the first Notes were issued in 2001.

The Fund incurred a loss of \$429,000 in 2002 primarily because investment income was insufficient to provide for the expenses of the Fund. The Fund has a deficit at December 31, 2002 of \$698,000.

During 2002, the focus of SGGF VII was on the investment of subscriptions in eligible Saskatchewan businesses.

The investment policy of SGGF VII is to invest up to 50% of subscription proceeds in infrastructure loans in Saskatchewan, up to 30% in small and medium-sized enterprises ("SMEs") in Saskatchewan, and the remainder in cash or high quality liquid debt securities.

The interest rate for the investors' escrow and Note is determined at the time the full subscription is received, and remains constant over the term of the Note.

The federal Immigrant Investor Program under which SGGF VII operates requires that the five year term to maturity of a Note be extended if, and for so long as, less than 70% of the amount of the Note is invested in the active business operations of eligible businesses in Saskatchewan. As a result of delays in finding suitable investments, the Fund compensates those investors affected through an additional payment to cover the initial period from nine months after receipt of their full subscription until at least 70% of such amount is invested in eligible businesses.

Investment Activities

In 2002, a total of \$6.8 million was invested in six businesses (2001 - \$4.9 million in six businesses). This includes \$5.8 million (2001 - \$2.9 million) relating to infrastructure loans and \$1 million (2001 - \$2 million) in SMEs. Loans accounted for 65% (2001 - 59%) of the SME amount invested in 2002 while equity investments accounted for the remaining 35% (2001 - 41%).

Since SGGF VII's inception in 1999, investments made by the Fund total \$11.3 million, of which \$8.4 million has been invested in infrastructure loans and \$2.9 million has been invested in SMEs. Of the total investment in SMEs, 59% has been in the form of loans, and 41% in the form of equity.

At December 31, 2002, the investment portfolio totaled \$10.3 million, compared with \$4.8 million a year earlier. Investments consist of loans of \$7.6 million to two companies in the form of infrastructure loans, and investments of \$2.7 million in eight SMEs (56% debt and 44% equity). Provisions for losses total \$61,000, compared with nil at the end of 2001. In addition, the consolidated statement of financial position includes \$9.5 million in cash and portfolio investments, compared with \$15.5 million at December 31, 2001.

The provisions of the Immigrant Investor Program require that at least 70% of the subscription amount be invested in eligible businesses no later than nine months after receipt of the full subscription. SGGF VII has not met this target as a result of a lack of suitable investment opportunities. The federal regulator that oversees the Immigrant Investor Program has extended to June 30, 2003 the date by which subscriptions received by SGGF VII prior to October 1, 2002 must be invested.

Income from investments and portfolio investments for the year was \$897,000, compared with \$816,000 in 2001, reflecting the higher level of investment throughout 2002.

In 2001, a company with which SGGF VII was associated sold assets that were used in its leasing business. SGGF VII extended loans to the acquirer to purchase the assets. Repayment of the loans to SGGF VII is on essentially the same terms as were the loans to the vendor. Revenue from operating leases, net of amortization of equipment on lease, totaled \$58,000 in 2001.

Investor Activities

At December 31, 2002, obligations to investors totaled \$15.8 million, comprised of 63 Notes (2001 – \$11.8 million comprised of 47 Notes). Of the 63 Notes outstanding at December 31, 2002, 25 are scheduled to mature in 2006 and 38 in 2007.

At December 31, 2002, there were 108 subscriptions (2001 – 117) to the Fund representing a potential fund of \$27.0 million (2001 - \$29.3 million). To December 31, 2002, 86 full subscriptions (2001 – 86) had been received with 22 additional subscribers (2001 – 31) yet to complete their subscription requirements. In 2002, there were 9 withdrawals from the Fund compared to 4 in 2001.

The balance of investors' funds awaiting investment is recorded as subscription deposits. Subscription deposits totaled \$5.8 million at December 31, 2002, compared with \$10.1 million a year earlier.

Obligations under the Notes are subordinate to all other liabilities of SGGF VII and repayment is dependent on the proceeds on liquidation of investments and all other available liquidity in excess of other liabilities.

In accordance with the terms of the Confidential Offering Memorandum for SGGF VII, interest was paid on all Notes outstanding at December 31, 2002. Total interest expense recorded in the year was \$634,000, compared with \$1.0 million in 2001.

Operating Activities

Administration costs reflect expenditures related to the ongoing operations of the Fund and its investments. As a percentage of average total assets managed, these costs, excluding future fees, amounted to 1.93% and are comparable to 1.84% in 2001.

Administration costs of \$422,000 in 2002 (2001 - \$278,000) include management fees for the year totaling \$383,000, compared with \$329,000 in 2001.

The provision of administration and investment advisory services to SGGF VII is contracted to Crown Capital Partners Inc. The manager is paid a monthly fee for its services and will receive a performance fee based on the retained earnings, if any, of SGGF VII after all investor obligations are repaid in full and all investments have been liquidated.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

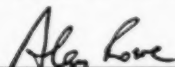
The President and fund manager of the Saskatchewan Government Growth Fund VII Ltd. are responsible for management of the Fund. The accompanying consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles, and necessarily include amounts which are based on informed judgement and management estimates. Financial data presented elsewhere in this annual report is consistent with that in the financial statements.

Ensuring the integrity and objectivity of financial information is an integral part of management's responsibility. Management maintains an appropriate system of internal accounting and administrative controls, policies and procedures to provide reasonable assurance that all transactions are authorized, financial records are complete and accurate, and assets are safeguarded against loss.

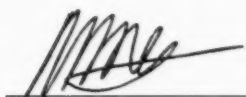
The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting. The Board has reviewed and approved these financial statements.

Deloitte & Touche LLP, the corporation's independent auditors, have examined the financial statements of the corporation. Their responsibility is to conduct an independent and objective audit and to report on the fairness of presentation of the corporation's financial position, results of operations and cash flows as shown in the financial statements. The Auditors' Report outlines the scope of their examination and their opinion.

On behalf of management,



Alan M. Rowe, C.A.
President



Mike Merth, C.A., C.M.A.
Crown Capital Partners Inc.

AUDITORS' REPORT

To the Shareholder of Saskatchewan Government Growth Fund VII Ltd.:

We have audited the consolidated statement of financial position of Saskatchewan Government Growth Fund VII Ltd. as at December 31, 2002, and the consolidated statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte Touche LLP

Chartered Accountants
February 7, 2003

CONSOLIDATED FINANCIAL STATEMENTS

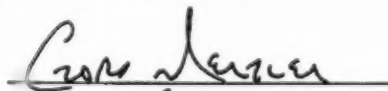
Saskatchewan Government Growth Fund VII Ltd.
(Incorporated under The Business Corporations Act of Saskatchewan)
Consolidated Statement of Financial Position
As at December 31

	<u>2002</u>	<u>2001</u>
Assets		
Cash	\$ 3,140,336	\$ 2,414,394
Portfolio investments (Note 4)	6,360,616	13,137,645
Accounts receivable and accrued income	153,091	505,278
Investments (Note 5)	10,271,935	4,817,963
Deferred costs (Note 6)	1,283,874	1,441,871
	<u>\$ 21,209,852</u>	<u>\$ 22,317,151</u>
Liabilities and Shareholder's Deficiency		
Accounts payable and accrued liabilities	\$ 11,911	\$ 164,909
Commissions payable	60,000	40,000
Accrued interest payable to investors	276,282	491,589
Subscription deposits (Note 7)	5,808,768	10,138,487
Obligations to investors (Note 8)	15,750,000	11,750,000
	<u>21,906,961</u>	<u>22,584,985</u>
Share capital (Note 9)	1,000	1,000
Deficit	(698,109)	(268,834)
	<u>(697,109)</u>	<u>(267,834)</u>
	<u>\$ 21,209,852</u>	<u>\$ 22,317,151</u>

Commitments (Note 14)

See accompanying notes to the consolidated financial statements

On behalf of the Board:



Gordon Mertler
Director



Lloyd Boutilier
Director

**Saskatchewan Government Growth Fund VII Ltd.
Consolidated Statement of Operations and Deficit
For the Year Ended December 31**

	<u>2002</u>	<u>2001</u>
Revenues		
Interest from cash and portfolio investments	\$ 402,688	\$ 735,164
Income from investments	494,462	81,225
Lease revenue	-	194,214
Other income	8,313	23,808
	<u>905,463</u>	<u>1,034,411</u>
Provision for credit losses	60,972	-
Net revenue	<u>844,491</u>	<u>1,034,411</u>
Expenses		
Administration (Note 11)	421,520	278,066
Interest on obligations to investors	481,389	893,917
Interest on subscription deposits	152,860	141,084
Amortization of deferred costs	217,997	184,286
Amortization of equipment on operating leases	-	135,733
	<u>1,273,766</u>	<u>1,633,086</u>
Net loss	(429,275)	(598,675)
(Deficit) retained earnings, beginning of year	(268,834)	329,841
Deficit, end of year	<u>\$ (698,109)</u>	<u>\$ (268,834)</u>

See accompanying notes to the consolidated financial statements

Saskatchewan Government Growth Fund VII Ltd.
Consolidated Statement of Cash Flows
For the Year Ended December 31

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities		
Net loss	\$ (429,275)	\$ (598,675)
Adjustments:		
Amortization of equipment on operating leases	-	135,733
Amortization of deferred costs	217,997	184,286
Provision for credit losses	60,972	-
Amortization of premium and discount on bonds	18,931	8,135
Net change in non-cash balances related to operations (Note 12)	(56,118)	(436,506)
Cash flows from operating activities	<u>(187,493)</u>	<u>(707,027)</u>
Cash flows from investing activities		
Purchase of portfolio investments	(6,890,072)	(19,091,155)
Sale of portfolio investments	13,648,170	19,323,335
Disbursements on investments	(6,765,580)	(4,940,984)
Repayments of investments	1,250,636	123,021
Purchase of equipment on operating leases	-	(2,399,032)
Sale of equipment on operating leases	-	2,263,299
Cash flows from investing activities	<u>1,243,154</u>	<u>(4,721,516)</u>
Cash flows from financing activities		
(Repayment of) proceeds from note subscriptions	(329,719)	5,543,112
Cash flows from financing activities	<u>(329,719)</u>	<u>5,543,112</u>
Net increase in cash	725,942	114,569
Cash, beginning of year	2,414,394	2,299,825
Cash, end of year	<u>\$ 3,140,336</u>	<u>\$ 2,414,394</u>
Interest paid during the year	<u>\$ 898,834</u>	<u>\$ 595,862</u>

See accompanying notes to the consolidated financial statements

Saskatchewan Government Growth Fund VII Ltd.
Notes to the Consolidated Financial Statements

1. Status of the corporation

Saskatchewan Government Growth Fund VII Ltd. ("SGGF VII") was incorporated in February 1999 under The Business Corporations Act of Saskatchewan and has been accepted as a government administered venture capital fund under the federal government's Immigrant Investor Program ("IIP"). Under this program, SGGF VII was established to raise \$35,000,000 through a note offering. Each note is a variable rate (1.50% to 3.50%), unsecured, subordinated debt instrument with a cost of \$250,000, repayable in five years provided that 70% of the proceeds are invested in eligible businesses ("Notes") throughout the five year period. SGGF VII commenced commercial operations in 1999 and achieved its minimum offering of 14 investors in March 1999. The marketing period for SGGF VII ended on March 31, 1999.

The Confidential Offering Memorandum ("Memorandum") and the IIP prescribe various conditions that qualify an investment as an eligible business, including a requirement that the business be Saskatchewan based and have assets, including assets of associated companies, of less than \$35 million.

As stated in the Memorandum, the Government of Canada and the Government of the Province of Saskatchewan offer no guarantees or assurances on the financial performance of SGGF VII or of a return of an investor's original investment and neither government will be liable for any loss or damages suffered by an investor as a result of an investment in the Notes.

The consolidated financial statements include the accounts of SGGF VII and those of 101027596 Saskatchewan Ltd. on a proportionate basis.

2. Significant accounting policies

The accompanying consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following are considered significant:

Measurement Uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may vary from the current estimates. These estimates are reviewed quarterly and, as adjustments become necessary, they are reported in the Consolidated Statement of Operations and Deficit in the period in which they become known.

Portfolio investments

Government of Canada Treasury Bills ("T-Bill") are valued at cost. Government of Canada Bonds ("Bond") are valued at amortized cost.

Investments

Investments include debt and equity investments in private companies. Income from debt investments is recognized as earned and income from equity investments is recognized when received.

Debt investments are carried at cost, net of provisions for credit losses.

Provisions for credit losses are established on impaired debt instruments ("loans"). A loan is considered to be impaired if, as a result of a deterioration in credit quality, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. Any loan on which contractual payments are in arrears for 90 days or more is usually assumed to be impaired. Other factors that are considered in determining whether a loan is impaired include the overall credit quality of the borrower and the fair value of the underlying security. When a loan becomes impaired, recognition of interest income ceases. A provision for specific credit losses is established for impaired loans to reduce their value to the estimated fair value of the security underlying the loan. If the credit quality of the loan subsequently improves a provision is reduced or reversed.

Investments in equities are carried at the lower of cost and, where a loss in value that is other than temporary has occurred, net realizable value. Investments that are evaluated as possibly being subject to a loss in value are assessed periodically based on appropriate criteria, including past operating results of the investee, financial outlook of the investee, recent capital transactions, and their associated value, between the investee and arm's length parties, and liquidity or going concern problems of the investee.

When a decline in the value of an equity investment is no longer considered to be temporary, the investment is written down and carried at the written down value until disposal of the equity investment.

SGGF VII intends to dispose of its investments in due course. Accordingly, investee companies over which SGGF VII has significant influence are not consolidated.

Deferred costs

Deferred costs include consulting, legal, administrative, accounting, general and printing costs associated with SGGF VII's offering. Commissions paid or payable on subscriptions received have also been deferred. Deferred costs, including commissions, are amortized over five years from date of Note issuance.

Commissions payable

According to the terms of marketing agreements entered into by SGGF VII, a commission is payable to the independent marketing agents selling the Notes upon receipt by SGGF VII of the subscription deposit and all required documentation. The commission is subject to a holdback pending issuance of the investor's immigrant visa.

Accrued interest payable to investors

SGGF VII accrues interest on its subscription deposits from the date of deposit to the date of Note issuance. Investors earn interest at a rate between a minimum of 1.50% and a maximum of 3.50% per annum. The rate is determined at the time of subscription deposit and is calculated as 3.60% less than the then current yield on a benchmark Government of Canada bond. Interest is paid upon Note issuance.

Obligations to investors

Obligations to investors represent the Notes issued to investors of SGGF VII. Their investment helps to satisfy a portion of their visa requirements under the IIP. Interest to the maturity date of Notes is accrued at an annual rate between a minimum of 1.50% and a maximum of 3.50% from the date of Note issuance until maturity. The rate is determined at the time of subscription deposit and is calculated as 3.60% less than the then current

yield on a benchmark Government of Canada bond. Interest is paid annually on December 31 and at maturity.

3. Provisions of the IIP

70% investment requirement

The terms of the IIP require that at least 70% of each subscription deposit be invested in eligible businesses no later than nine months from receipt of the subscription amount. The federal regulator responsible for the IIP, Citizenship and Immigration Canada, has extended the deadline for investment of subscriptions received by SGGF VII prior to October 1, 2002, to June 30, 2003.

Minimum holding period and maturity of the Notes

A Note is issued to evidence receipt of the subscription deposit on the date that at least 70% of the subscription deposit is invested in eligible businesses. Each Note is scheduled to mature five years from such date, provided SGGF VII maintains at least 70% of the Note continuously invested in the active business operations of eligible businesses for five years following the issuance date. The IIP contains provisions that require the maturity date of a Note be extended if, and for such period that, a minimum of 70% of the Note amount ceases to be invested in the active business operations of eligible businesses.

If the subscription deposit has not been at least 70% invested in eligible businesses within nine months of receipt, then, for the period from nine months after receipt until a minimum of 70% of the subscription deposit is initially invested in eligible businesses, the investor will receive an additional payment as compensation for the extension of the term to maturity of their Note.

4. Portfolio investments

Security	Rate (%)	Maturity Date	Par (\$)	<u>2002</u> Cost (\$)	<u>2001</u> Cost (\$)
T-Bill	2.94	4/12/03	1,000,000	972,890	-
Bond	5.00	1/9/04	1,500,000	1,495,313	1,492,635
Bond	6.00	1/9/05	1,920,000	1,956,373	1,969,600
Bond	5.75	1/9/06	1,888,888	1,936,040	-
T-Bill	3.03	3/1/02	2,500,000	-	2,479,825
T-Bill	4.40	28/2/02	5,500,000	-	5,280,385
T-Bill	4.44	25/4/02	2,000,000	-	1,915,200
				<u>\$ 6,360,616</u>	<u>\$ 13,137,645</u>

Market value at December 31, 2002 is \$6,587,356.

5. Investments

	<u>2002</u>	<u>2001</u>
Debt instruments	\$ 9,153,124	\$ 3,998,180
Equity instruments	1,179,783	819,783
Provision for credit losses	(60,972)	-
	<u>\$ 10,271,935</u>	<u>\$ 4,817,963</u>

Included in investments is \$749,972 (2001 - \$nil) of impaired investments, net of accumulated provision for credit losses of \$60,972 (2001 - \$nil), upon which income is not accrued.

During the year, investments increased as follows:

	<u>2002</u>	<u>2001</u>
Balance, beginning of year	\$ 4,817,963	\$ -
New investments	6,765,580	4,940,984
Book value of divestments	(1,250,636)	(123,021)
Net change in provision for credit losses	(60,972)	-
Balance, end of year	<u>\$ 10,271,935</u>	<u>\$ 4,817,963</u>

6. Deferred costs

Deferred costs have been recorded net of accumulated amortization of \$473,488 (2001 – \$275,490).

7. Subscription deposits

Subscription deposits are reclassified to obligations to investors upon Note issuance.

8. Obligations to investors

Notes – 1.50% to 3.50% unsecured promissory notes.

The obligation at December 31 is comprised of Notes with interest rates as follows:

	<u>2002</u>		<u>2001</u>	
	Number	\$	Number	\$
1.50%	28	7,000,000	31	7,750,000
1.70%	1	250,000	-	-
2.00%	4	1,000,000	-	-
2.20%	4	1,000,000	-	-
2.30%	1	250,000	-	-
2.40%	7	1,750,000	-	-
2.45%	2	500,000	-	-
2.50%	5	1,250,000	5	1,250,000
2.60%	9	2,250,000	9	2,250,000
2.80%	<u>2</u>	<u>500,000</u>	<u>2</u>	<u>500,000</u>
	<u>63</u>	<u>15,750,000</u>	<u>47</u>	<u>11,750,000</u>

The following is the schedule of Note maturities as at December 31, 2002:

2006	\$ 6,250,000
2007	<u>9,500,000</u>
	<u>\$ 15,750,000</u>

Obligations under the Notes are subordinate to all other liabilities of SGGF VII and repayment is dependent on the proceeds on liquidation of investments and other available liquidity in excess of other liabilities. The Notes are irrevocable, except in the case that (i) a visa is denied, or (ii) at least 70% of the subscription amount is not invested in eligible businesses within nine months of the date of payment of the full subscription amount.

9. Share capital

The authorized common share capital of SGGF VII at December 31 is:

Common shares - an unlimited number of voting common shares. Holders of the common shares are entitled to receive dividends.

The issued common share capital at December 31 is:

1,000 common shares	<u>2002</u>	<u>2001</u>
	\$ 1,000	\$ 1,000

10. Financial instruments

SGGF VII's primary business is the raising of capital from immigrant investors and placing these funds in new and expanding Saskatchewan businesses. This investment activity entails exposure to market risk, credit risk, interest rate risk and liquidity risk. These risk factors may impact upon SGGF VII's ability to repay its Notes at maturity.

Market Risk

Market risk is the risk that the fair value of an investment may be affected by the ability of an investee company to profitably distribute its products. Some of the companies in which SGGF VII invests are dependent upon a single product or industry. SGGF VII manages this risk through careful due diligence prior to committing funds to the investment and by diversifying its investments across various industry sectors.

Credit Risk

Credit risk is the risk that an investee will fail to perform its obligations. Concentration of credit exposure may arise given that SGGF VII restricts its investments to businesses operating in Saskatchewan and therefore all investments are subject to a similar general economic environment. The ability of such investees to meet contractual obligations may be affected by changing economic, political or other conditions. SGGF VII conducts thorough due diligence prior to committing to an investment and actively monitors the financial health of its investees on an on-going basis. In addition, some investees operate in and export to other provinces or international markets thereby mitigating this risk.

Interest Rate Risk

Interest rate risk is the risk that SGGF VII's earnings will be affected by fluctuations in interest rates. SGGF VII manages this risk through carefully monitoring and matching the duration of its portfolio investments and investments with the duration of its obligations to investors.

Liquidity Risk

Liquidity risk is the risk that SGGF VII will encounter difficulty in liquidating its investments at the time it is required to repay Notes. Due to the nature of some of SGGF VII's investments, the timing of cash flows from its investments may not exactly match with the payments owing under SGGF VII's Notes. SGGF VII carefully monitors the duration of its investments. However, timing differences may require SGGF VII to reduce or delay the payments owing on Notes at maturity.

Fair Value - Investments

There is no active secondary market for many of the entities in which SGGF VII invests, and the uncertainty and potentially broad range of outcomes pertaining to the future cash flows from these investments renders the calculation of a fair value with appropriate reliability impractical. The factors that affect the fair value are described above.

Fair Value - Obligations to Investors

No secondary market for the Notes exists. Due to the unique features associated with the Notes, the calculation of a fair value with appropriate reliability is impractical. The risk factors that affect the fair value of investments, as described above, also affect the fair value of obligations to investors. Repayment of these obligations at maturity is dependent upon the value and liquidity of investments at that time.

11. Administration

Under the terms of a management agreement, expiring in 2009, between SGGF VII and Saskatchewan Government Growth Fund Management Corporation ("SGGF Management Corporation"), SGGF Management Corporation administers the assets of SGGF VII with the assistance of a manager that performs fund administration and investment management. SGGF Management Corporation does not guarantee the financial performance of SGGF VII. All services provided to SGGF VII are charged on a fee for service basis. The costs billed to the fund by SGGF Management Corporation are as follows:

	<u>2002</u>	<u>2001</u>
Manager fees	\$ 383,201	\$ 329,462
General administration	6,726	5,756
Directors fees and expenses	9,843	8,777
Legal and professional	<u>21,750</u>	<u>16,531</u>
	421,520	360,526
Provision for manager profit share	-	(82,460)
	<u>\$ 421,520</u>	<u>\$ 278,066</u>

12. Net change in non-cash balances related to operations

	<u>2002</u>	<u>2001</u>
Accounts receivable and accrued income	\$ 352,187	\$ (456,149)
Deferred costs	(60,000)	(458,000)
Accounts payable and accrued liabilities	(152,998)	72,004
Commissions payable	20,000	(27,500)
Accrued interest payable to investors	<u>(215,307)</u>	<u>433,139</u>
	<u>\$ (56,118)</u>	<u>\$ (436,506)</u>

13. Income taxes

A provincial Crown corporation owns all of the issued shares of SGGF VII. Therefore, SGGF VII is income tax exempt.

14. Commitments

The total amount of investments approved but not yet disbursed is \$194,907 (2001 - \$180,917).

15. Related party transactions

Included in these consolidated financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan government controlled departments, agencies and corporations with which SGGF VII is related. Account balances resulting from these transactions are included in the Consolidated Statement of Financial Position and are settled on normal trade terms.

As stated in Note 12, SGGF VII has a management agreement with SGGF Management Corporation. Total fees charged to the fund by SGGF Management Corporation amounted to \$421,520 (2001 - \$360,526). Total fees payable to SGGF Management Corporation at December 31, 2002, and included in the above, is \$11,801 (2001 - \$4,279).

Other transactions with related parties are disclosed separately in the financial statements and notes thereto.

16. Comparative figures

The consolidated financial statements include the accounts of SGGF VII and, until November 30, 2001, those of 101005716 Saskatchewan Ltd. ("101005716") on a proportionate basis. 101005716 was an entity that was jointly controlled by SGGF VII and other SGGF fund companies. Loans from SGGF VII to 101005716 were used to purchase infrastructure-related assets that were leased to Saskatchewan Crown corporations under various operating leases. In December 2001, 101005716 sold its equipment assets, net of accumulated amortization, to a third party entity and a loan was extended to this entity by SGGF VII to purchase the assets.

Certain comparative figures have been reclassified to conform with the current year's presentation.

FOUR YEAR FINANCIAL SUMMARY
Saskatchewan Government Growth Fund VII Ltd.
(in thousands of dollars)

Financial Position
As at December 31

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Assets				
Cash	\$ 3,140	2,414	2,300	3,782
Portfolio investments	6,361	13,138	13,378	5,946
Investments	10,272	4,818	-	-
Other assets	1,437	1,947	1,217	701
Total assets	<u>\$ 21,210</u>	<u>22,317</u>	<u>16,895</u>	<u>10,429</u>
Liabilities and Deficit				
Obligations to investors	\$ 21,835	22,380	16,403	10,172
Other liabilities	72	205	161	126
(Deficit) equity	(697)	(268)	331	131
Total liabilities and deficit	<u>\$ 21,210</u>	<u>22,317</u>	<u>16,895</u>	<u>10,429</u>

Operating Results
For the years ended December 31

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Revenues				
Investment income	\$ 494	81	-	-
Lease revenue	-	194	-	-
Interest from cash and portfolio investments	403	735	738	266
Other income	8	24	19	25
	<u>905</u>	<u>1,034</u>	<u>757</u>	<u>291</u>
Provision for losses on investments	61	-	-	-
Net revenue	<u>844</u>	<u>1,034</u>	<u>757</u>	<u>291</u>
Expenses				
Administration	422	278	220	45
Financing	851	1,355	337	116
Total expenses	<u>1,273</u>	<u>1,633</u>	<u>557</u>	<u>161</u>
Net (loss) income	<u>\$ (429)</u>	<u>(599)</u>	<u>200</u>	<u>130</u>

CORPORATE INFORMATION

Saskatchewan Government Growth Fund VII Ltd.

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Businesswoman
Melfort, Saskatchewan

Lloyd Boutilier
Businessman
Regina, Saskatchewan

Darrel Cunningham
Farmer
Lintlaw, Saskatchewan

Harwood Davies
Businessman
Watrous, Saskatchewan

Roland ("Rollie") Hardy
Businessman
Regina, Saskatchewan

Gordon Mertler
Businessman
Regina, Saskatchewan

Fund Manager

Saskatchewan Government Growth Fund
Management Corporation, which has retained
Crown Capital Partners Inc. to provide
management services.

Crown Capital Partners Inc.
Brian A. Johnson, C.F.A., Managing Partner
Alan M. Rowe, C.A., Partner Responsible for SGGF
Christopher J. Anderson, C.F.A., Partner
B. Cameron Johnson, C.A., C.F.A., Partner
Christopher A. Johnson, C.F.A., C.B.V., Partner
Chris A. Selness, C.F.A., Partner

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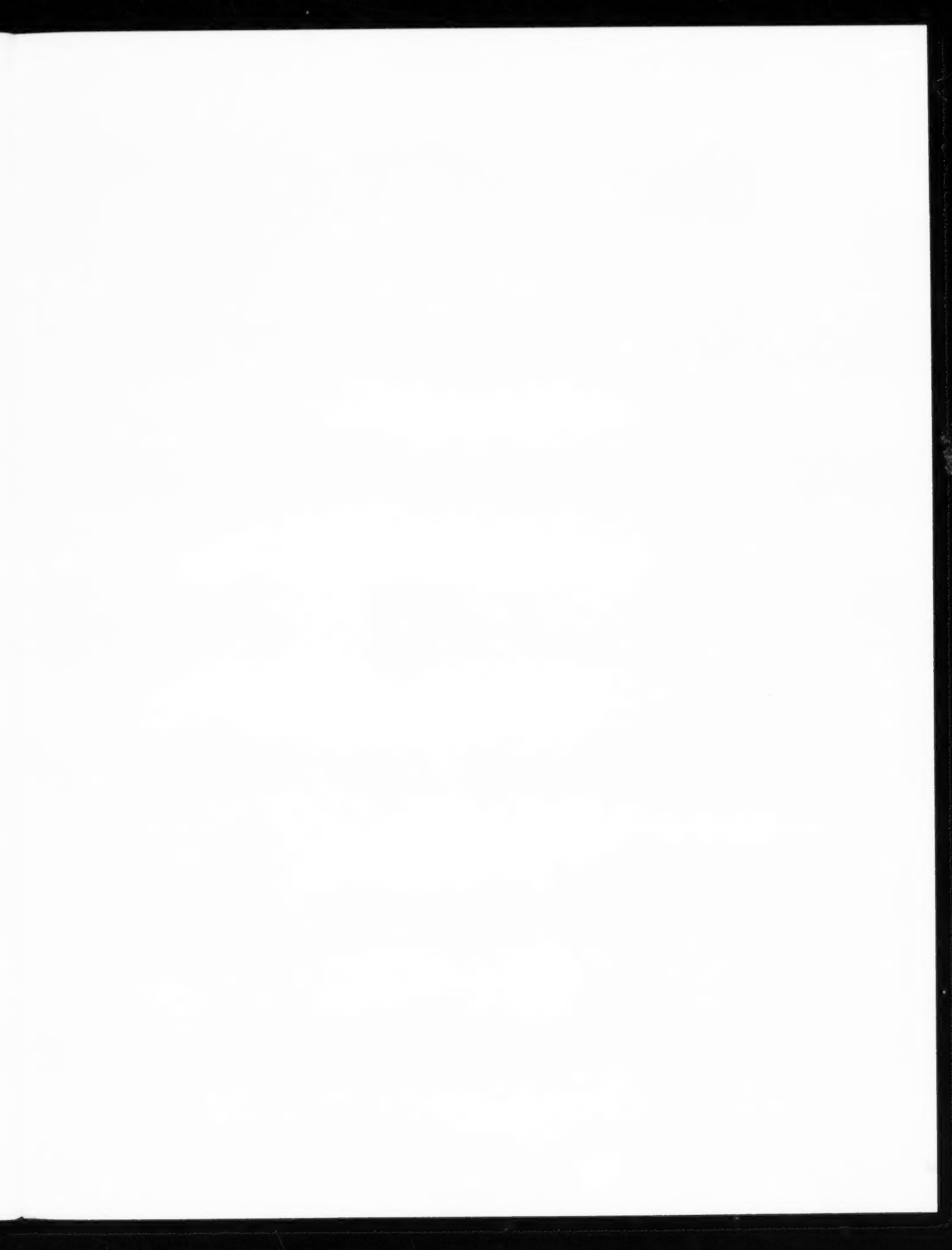
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GROWTH FUND